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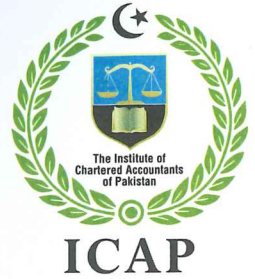
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June 30, 2025

The International Ethics Standards Board for Accountants (IESBA)
529 5th Avenue, New York

ICAP Comments on the IESBA Consultation Paper – *Collective Investment Vehicles and Pension Funds – Auditor Independence*

Dear Board Members,

The Institute of Chartered Accountants of Pakistan is pleased to comment on the Consultation Paper on '*Collective Investment Vehicles and Pension Funds – Auditor Independence*' issued by the International Ethics Standard Board for Assurance (the Board / IESB) in March 2025.

We appreciate the Board's efforts in undertaking a project related to the independence requirements of auditors for collective investment vehicles and pension funds. The **Appendix** to this letter contains our comments to the questions of the Consultation Paper.

We hope our comments are helpful to the IESBA's deliberation on the Consultation Paper. Should you require further clarification on our comments, please contact the undersigned, at: farheen.miza@icap.org.pk

Yours truly,

Farheen Mirza, FCA
Deputy Director Technical
& Secretary Auditing Standards & Ethics Board

Encl: As above

ICAP Comments on IESBA Consultation Paper '*Collective Investment Vehicles and Pension Funds – Auditor Independence*'

Related Entities Under the Code

Question 1 - Does the Code's definition of related entity capture all relevant parties that need to be included in the auditor's independence assessment when auditing CIVs/pension funds? Please provide reasons for your response?

Comments

The IESBA Code's definition of related entity is generally sufficient to capture all relevant parties for assessing auditor independence in CIVs and pension fund audits. However, due to the complexity of these structures, auditors must apply professional judgment and consider the substance of relationships, not just their legal form. In certain cases, this may require expanding the scope of independence considerations beyond what is strictly defined as a "related entity" under the current Code.

Paragraph 400.20 explains that when the audit team knows/ has reason to believe, that a relationship or circumstance involving any other related entity of the client is relevant to the evaluation of the firm's independence from the client, the audit team shall include that related entity when identifying, evaluating and addressing threats to independence.

Entities that might be considered while evaluating the CIV's related entity might include the following:

- 1) Fund manager
- 2) Sponsor or trustee – depending on the level of control or influence
- 3) Investee entities – depending on the control and significance of the Fund over them
- 4) Multiple CIVs managed by the same fund manager

Application of the Code to Connected Parties

The questions in this Section pertain to an audit of a CIV/pension fund where a Connected Party to the Scheme meets the criteria set out in paragraph 35, i.e., the Connected Party is:

- (a) Responsible for its decision making and operations;**
- (b) Able to substantially affect its financial performance; or**
- (c) In a position to exert significant influence over the preparation of its accounting records or financial statements.**

Question 2 - Do you believe the criteria set out above are appropriate and sufficient to capture Connected Parties that should be considered in relation to the assessment of auditor independence with respect to the audit of a CIV/pension fund? Please provide reasons for your response.

Comments

We agree that the investment Schemes do not employ their own staff; instead, they rely on other parties to provide functions or services for the Schemes that management or employees would provide in a conventional corporate structure. As a result, it is usual for an Investment Scheme to engage other parties, such as an asset management company or investment advisor to carry out vital functions. The same practice follows in Pakistan.

The current criteria appear to focus primarily on direct influence over operations, performance, or financial reporting. However, in complex CIV or pension fund structures, indirect influence can also create independence threats that may not be captured by the existing wording.

In addition, the criteria do not explicitly address financial dependence between the auditor and the Connected Party. A commercial arrangement between the auditor and the entity could give rise to a self-interest threat. The absence of a reference to economic relationships may result in such threats being overlooked, even when the Connected Party does not exercise direct control over decision-making or financial reporting.

We accordingly agree to include specific independence provisions for audits of Investment Schemes, to provide greater clarity on requirements for auditors to evaluate whether certain interests, relationships, or circumstances between the auditor and Connected Parties pose any threats to the auditor's independence when conducting the audit of an Investment Scheme.

We accordingly suggest to provide additional guidance or illustrative examples where such interests, relationships or circumstances exist with respect to investment schemes that pose a threat to the auditor's independence. We believe that it would serve the public interest and promote consistent application of the Code's principles.

Question 3 - Where there are such Connected Parties, do you believe that the application of the conceptual framework in Section 120 of the Code is sufficiently clear as to how to identify, evaluate and address threats to independence resulting from interests, relationships, or circumstances between the auditor of the CIV/pension fund and the Connected Parties? If not, do you believe the application of the conceptual framework in the Code as applicable to Connected Parties associated with Investment Schemes warrants additional clarification? Please provide reasons for your response.

Comments

Section 120 emphasizes the need to evaluate whether identified threats are at an acceptable level (paras R120.7, 120.7 A1). However, the Code does not provide a clear threshold or specific guidance for this assessment. In the audit of CIVs and pension funds, where structures are often complex and roles frequently overlap, the lines of influence can become blurred. This makes the evaluation of threats inherently subjective and potentially inconsistent in the absence of more explicit direction.

Given these challenges, the application of the conceptual framework to Connected Parties in the context of CIVs and pension funds would benefit from further clarification in the Code. In particular, the inclusion of practical guidance—such as illustrative examples or scenarios reflecting common industry structures (e.g., relationships with fund managers, third-party administrators, or entities with shared board members)—would help auditors better understand how to apply the framework in practice and support more consistent independence assessments.

Question 4 - Do you believe that the conceptual framework in Section 120 of the Code is consistently applied in practice with respect to the assessment of auditor independence in relation to Connected Parties when auditing a CIV/pension fund? Please provide reasons for your response.

Comments

Paragraph R120.5 requires the chartered accountant to have an inquiring mind, exercise professional judgment and perform the reasonable and informed third party test When applying the conceptual framework. While these are important tools, however in practice, interpretations can vary significantly between firms, jurisdictions, and engagement partner understanding in determining:

- Whether a Connected Party poses a self-interest, familiarity, or self-review threat;
- Whether such threats are at an acceptable level; and
- What level of influence or control should trigger the need to apply safeguards or withdraw from the engagement.

We believe that the conceptual framework (Section 120) of the Code is consistently applied in practice for the assessment of auditor's independence with respect to Connected Parties when auditing a CIV / pension fund, however we believe that additional guidance would be helpful for the auditors in this regard.

Question 5 - Are there certain interests, relationships, or circumstances between the auditor of a CIV/pension fund and its Connected Parties that should be addressed? Please provide reasons for your response.

Comments

We understand that any interest or relationship that could impair or appear to impair the independence of the auditor must be disclosed, evaluated, and mitigated—either through safeguards or by recusal/replacement.

We believe that the code sufficiently covers guidance for the professional accountants on the financial interest (directly or indirectly), previous employment or family relationships and other circumstances, however it may cover the examples /circumstances when the same audit firm rotates across multiple CIVs within a single fund structure managed by a Connected Party. This is particularly relevant where the audit firm becomes increasingly economically reliant on the collective audit portfolio, or where recurring engagement with similar management teams and governance bodies across different CIVs fosters undue familiarity over time -increases the risks of self-interest and familiarity threats.

Question 6 - Does your jurisdiction have requirements or guidance specific to audits of CIVs/pension funds from an auditor independence perspective? If yes, are those requirements included in audit-specific or CIV-specific regulation? Please provide details.

Comments

Under our local regulatory framework, the Securities and Exchange Commission of Pakistan (SECP) has issued 'Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003', the 'Non-Banking Finance Companies and Notified Entities Regulations, 2008' (NBFC Regulations, 2008) (*Part IV - Asset Management Services, Investment Advisory Services and Collective Investment Scheme*) and the 'Voluntary Pension System Rules, 2005), through which auditors of CIVs and pension funds are held to high standards of transparency, fiduciary care, and professional skepticism. Violations can lead to disqualification, penalties, and reputational damage.

The NBFC Regulations, 2008 (which govern mutual funds and CISs) and the Voluntary Pension System Rules, 2005 specify that: *The auditor must not be associated with the AMC or fund manager in any executive, consulting, or decision-making role.*

Further, SECP Circular No. 3 of 2024 outlines the process for appointing external auditors from a pre-approved list published by the SECP for high-asset entities regulated by the It aims to enhance the quality, credibility, and independence of audits conducted for entities managing substantial assets or holding public trust. The list comprises firms with positive QCR ratings, and compliance with IFAC's Code of Ethics and ISAs.

The above circular applies to Listed companies, Non-Banking Finance Companies (NBFCs), Collective Investment Schemes (CIS), Pension Funds, Insurance companies and other entities as notified by SECP whose total assets exceed the regulatory threshold. Where applicable, audit firms must be rotated after a fixed term (commonly 5 years), followed by a cooling-off period before reappointment.